

Service Date: May 10, 1995

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER of the Application of)	
PACIFICORP for Authority to (1) Borrow)	
the Proceeds of Not More Than)	
\$125,000,000 of Pollution Control)	
Revenue Bonds, (2) Enter into such)	UTILITY DIVISION
Agreements or Arrangements as may be)	
Reasonably Necessary to Effect the)	DOCKET NO. 95.4.19
Borrowings and to Provide Credit)	
Enhancement for the Bonds, Including)	DEFAULT ORDER NO. 5849
the Issuance of First Mortgage and)	
Collateral Trust Bonds, and (3) Replace)	
or Modify From Time to Time the Credit)	
Enhancement Arrangements Supporting)	
the Bonds.)	

BACKGROUND

1. On April 25, 1995, PacifiCorp (Company), a corporation organized and existing under and by virtue of the laws of the State of Oregon and qualified to transact business in Montana, filed with the Montana Public Service Commission its verified application, pursuant to '69-3-501 through '69-3-507, MCA, requesting an order authorizing the Company to (1) borrow the proceeds of not more than \$ 125,000,000 of Pollution Control Revenue Bonds (Bonds) to be issued by the Counties or municipalities of: Emery, Utah, Carbon, Utah, Lincoln, Wyoming, Sweetwater, Wyoming, Converse, Wyoming, Campbell, Wyoming, Moffat, Colorado, Routt, Colorado, and Lewis, Washington (Issuers); (2) enter into such agreements or arrangements with the Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Bonds; and (3) replace or modify from time to time the credit enhancement arrangements supporting the Bonds.

2. The application is supported by exhibits and data in accordance with the rules and regulations of the Commission governing the authorization of the issuance of securities by electric and gas utility companies operating within Montana.

3. For detailed information with respect to the general character of the Company=s business and the territories served by it, reference is made to its annual reports on file with the Commission.

4. The application sets forth Counsel who will pass upon the legality of the proposed issuance, the other regulatory authorizations required, and the propriety of the proposed issue.

5. At a regular open session of the Montana Public Service Commission held in its offices at 1701 Prospect Avenue, Helena, Montana, on May 7, 1995, there came before the Commission for final action the matters and things in Docket No. 95.4.19, and the Commission, having fully considered the application and all the data and records pertaining to it on file with the Commission and being fully advised in the premises, makes the following:

FINDINGS

6. PacifiCorp is a corporation organized and existing under and by virtue of the laws of the State of Oregon and is qualified to transact business in the State of Montana.

7. PacifiCorp is operating as a public utility as defined in '69-3-101, MCA, and is engaged in furnishing electric service in Montana.

8. The Company was incorporated under Oregon law in August 1987 for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of PacifiCorp from Maine to Oregon. The Company uses the assumed business names of Pacific Power & Light Company and Utah Power & Light Company within their respective service territories located in the states of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming.

9. The Commission has jurisdiction over the subject matter of the application under '69-3-102, MCA.

10. Notice of the application was published as a part of the Commission's regular weekly agenda.

11. The Issuers will issue the Bonds. The Company will enter into an agreement with the Issuers pursuant to which it will receive the proceeds of any such issuance and agree to make payments sufficient to pay principal of, interest on, and premium (if any) on the Bonds, and to cover certain additional expenses. The aggregate principal amount of the Bonds will not exceed \$125,000,000. In order to achieve a lower cost of money, the Company also expects to enter into one or more agreements with unrelated third parties, such as commercial banks or insurance companies, to provide further assurance to the purchasers of the Bonds that the principal of, the interest on, and the premium (if any) on the Bonds will be paid on a timely basis. These arrangements may involve the issuance of the Company's First Mortgage and Collateral Trust Bonds as collateral for the Bonds in an amount not greater than the aggregate principal amount of the Bonds.

12. These borrowings will be made in connection with the issuance of Bonds by the Issuers to finance or refinance air and water pollution control, solid waste disposal and sewage facilities (Facilities) at one or more of the following electric generating plants: Jim Bridger, Carbon, Wyodak, Dave Johnston, Huntington, Hunter, Naughton, Craig, Hayden and Centralia (Plants). The Facilities consist principally of systems to remove and finally dispose of particulates and sulfur dioxide from flue gases and certain solid and sewage wastes.

13. Wyoming, Utah, Washington and Colorado statutes and the Internal Revenue Code permit local governmental agencies to issue bonds, the interest on which is not subject to federal income taxation for most bondholders, for the purpose of the construction of qualified pollution control equipment and solid and sewage waste facilities. The Issuers will be asked to adopt appropriate resolutions providing for the issuance of the appropriate series of the Bonds.

14. The Company also expects to enter into agreements with a commercial bank or insurance company to provide credit support for the Bonds. The Company may also issue its First Mortgage and Collateral Trust Bonds as collateral for repayment of the Bonds, either alone or in conjunction with bank or insurance company credit support.

15. The Bonds will be issued pursuant to Indentures of Trust between the Issuers and trustees. Pursuant to agreements between the Issuers and the Company, the proceeds from the sale of the Bonds, other than refundable accrued interest, will be loaned to the Company to finance or refinance the Facilities. Under the loan agreements, the Company will be obligated to pay absolutely and unconditionally, to the extent sufficient funds are not already in the possession of the trustee, the principal of, the interest on, and the premium (if any) on the Bonds, as well as certain fees and expenses of the Issuers. Under no circumstances will the Bonds and their related costs become an obligation of the Issuers.

16. To achieve a lower cost of money, the Company may enter into reimbursement agreements, guarantees, pledges, or other security agreements or arrangements to assure timely payment of amounts due in respect of the Bonds. For example, a letter of credit may be added in order to support the Bonds. In connection with a letter of credit, the Company would enter into a reimbursement agreement under which a bank would issue a letter of credit to support payments in respect of the Bonds. Under the reimbursement agreement, the Company would be required to reimburse each bank for any drawings under its letter of credit. Amounts advanced by a bank under a letter of credit are expected to bear interest based upon various short-term rates. The Company expects that any letter of credit bank will have a long-term credit rating of not less than AA and a short-term rating of not less than A-1/P-1. In the event a letter of credit is obtained, it is expected to have an initial term of three years unless extended by mutual consent of the bank

and the Company or replaced by the Company with another letter of credit or an alternative credit enhancement arrangement.

17. The estimated expenses of the offering are expected to be as follows:

OTHER EXPENSES

Regulatory Agency Fees	\$ 1,500
Issuer Fees (1)	1,000,000
Trustee Fees	50,000
Company Counsel Fees	100,000
Underwriters= Counsel Fees	150,000
Bond Counsel Fees	150,000
Accountants= Fees	50,000
Consulting Fees	37,500
Credit Enhancement Fees (2)	1,000,000
Rating Agency Fees	100,000
Printing Fees	70,000
Miscellaneous	<u>108,000</u>
Total Other Expenses	<u>\$2,817,000</u>

- (1) The Company may be required to pay an Issuer's fee to the Issuers to compensate the Issuers for providing the Company the opportunity to issue the Bonds. The Company's past experience indicates that Emery County and Lincoln County will charge such a fee. Although the Company is not familiar with Lewis County's or Routt County's policy regarding such fees, the other Issuers generally have not charged a fee. For purposes of this estimated expense, it is assumed that all Issuers will require the Company to pay an Issuer's Fee. Issuer's Fees are not expected to exceed an effective cost of 0.125 percent per annum of the principal amount over the life of the Bonds.
- (2) Represents initial commitment fee for bond insurance. If a letter of credit is used, credit enhancement cost is not expected to exceed 0.75 percent per annum.

18. The fees associated with the credit enhancement arrangement are not expected to exceed 0.75 percent per annum. The Company believes, and its experience in previous tax-exempt financings confirms, that the interest savings from enhancing the credit support for the Bonds will exceed the cost of the letter of credit or alternative credit arrangements; that is, the effective cost of the Bonds will be lowered by the credit enhancement arrangements.

19. Over the life of the Bonds, it may be necessary or desirable to replace one or more letters of credit or alternative credit enhancement arrangements from time to time as, for example, the credit ratings of the various banks (and thus the Company's interest costs) fluctuate or market rates for letters of credit change. The Company therefore requests authority to substitute, as necessary or desirable from time to

time, letters of credit or other credit enhancement arrangements for letters of credit or other credit enhancement arrangements then in effect with respect to the Bonds.

20. The Bonds will be issued with floating or fixed interest rates in several series with an aggregate principal amount not to exceed \$125,000,000.

21. While floating rate Bonds have a nominal long-term maturity, the obligation will have a Aput@ feature which enables the holder to tender the bonds at par within a short notice period. Floating rate Bonds will be marketed with one or more put frequencies, including, but not limited to, daily, weekly and monthly puts. Because of the put feature, investors are indifferent to the final maturity of the instrument; as a result, the floating rate Bonds may be structured with the longest maturity justified by the underlying assets being financed, while obtaining rates reflective of short maturities.

22. In view of the put feature, the Company will enter into an agreement with a remarketing agent who will agree in advance to seek new purchasers for the floating rate Bonds on a best-efforts basis if and when the Bonds are put. To satisfy the investment criteria of potential purchasers, the Company expects to arrange for a letter of credit or insurance contract as a source of credit support and liquidity. For example, a letter of credit will provide amounts required to purchase tendered floating rate Bonds that have not been successfully remarketed immediately, as well as amounts required for payment of scheduled interest and principal at maturity or through acceleration. The floating rate Bonds not immediately remarketed may thereafter be sold to other investors.

23. The floating rate Bonds' structure may include the selection of one of several tax-exempt market rate pricing modes, including pricing modes as short as daily and as long as annually. The Bonds may also include an option to convert to a fixed rate mode. The pricing mode selection will depend upon a number of factors, including expectations as to which mode offers the lowest relative rates at the time of issuance. During the time the floating rate Bonds carry a floating rate, the Bonds would be prepayable at par plus accrued interest at the end of any interest rate period.

24. Subject to market conditions, the Company may choose to issue the Bonds with fixed interest rates. It is expected that interest payments would be made on a semi-annual basis. The fixed rate Bonds may include call provisions at fixed prices at future dates. The Company may choose to purchase credit enhancement from insurance companies to achieve lower borrowing costs because the Bonds would then carry a AAA/Aaa rating. The insurance companies may require the Company to collateralize the Bonds with the Company's First Mortgage and Collateral Trust Bonds. However, if the anticipated interest savings are not sufficient or the terms relating to the bond insurance are considered to be unduly restrictive, the Company may choose not to obtain insurance and may collateralize the Bonds with the Company's

First Mortgage and Collateral Trust Bonds in an aggregate principal amount not exceeding the principal amount of the Bonds, thereby providing the Bonds with a credit rating equal to its senior debt (A/A2). The Commission previously authorized the Company to incur the lien of the PacifiCorp Mortgage in Docket No. 88.10.37, Default Order No. 5373. As in its previous issuances, the Company would expect to issue first mortgage bonds under the Pacific Power Mortgage and Utah Power Mortgage as the basis for the issuance of its First Mortgage and Collateral Trust Bonds.

25. The issuance of an order authorizing the proposed transaction does not constitute agency determination/approval of any issuance-related ratemaking issues which issues are expressly reserved until the appropriate proceeding.

CONCLUSIONS

1. The proposed issuance to which the application relates will be for lawful objects within the corporate purposes of the Company. The method of financing is proper.

ORDER

IT IS THEREFORE ORDERED by the Commission that:

1. The application of PacifiCorp, filed on April 25, 1995, for authority to (1) borrow the proceeds of not more than \$125,000,000 of Pollution Control Revenue Bonds (Bonds) to be issued by one or more of the following Counties or municipalities: Emery, Utah, Carbon, Utah, Lincoln, Wyoming, Sweetwater, Wyoming, Converse, Wyoming, Campbell, Wyoming, Moffat, Colorado, Routt, Colorado, and Lewis, Washington (Issuers); (2) enter into such agreements or arrangements with the Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Bonds; and (3) replace or modify from time to time the credit enhancement arrangements supporting the Bonds, pursuant to §69-3-501 through §69-3-507, MCA, is approved.

2. PacifiCorp shall file the following as they become available:

- a) The "Report of Securities Issued" required by 18 CFR 34.10.
- b) Verified copies of any agreement entered into pursuant to this Order.
- c) Verified copies of any credit enhancement arrangements entered into pursuant to this Order.

3. Issuance of this Order does not constitute acceptance of PacifiCorp exhibits or other material accompanying the application for any purpose other than the issuance of this Order.

4. Approval of the transactions authorized shall not be construed as precedent to prejudice any further action of the Commission.

5. Section 69-3-507, MCA, provides that neither the issuance of securities by PacifiCorp pursuant to the provisions of this Order, nor any other act or deed done or performed in connection with the issuance, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed.

6. This Order shall be effective upon execution.

DONE IN OPEN SESSION at Helena, Montana, this 8th day of May, 1995, by a 5 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCaffree, Chair

DAVE FISHER, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.